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September 20, 2012

Ms. Marlene H. Dortch, Secretary
Federal Communications Commission
445 Twelfth Street, SW
Washington, DC 20554

**Re: Notice of Oral *Ex Parte* Communication
Universal Service Contribution Methodology, WC Docket No. 06-122**

Dear Ms. Dortch:

On Tuesday September 18, 2012, S. Derek Turner, Research Director of Free Press and Matt Wood, Policy Director of Free Press met with Christine Kurth, Policy Director and Wireline Counsel to Commissioner McDowell.

We discussed the Commission's open proceeding regarding modifications to the Commission's universal service contribution methodology. Consistent with our earlier filings, Free Press emphasized the following points:

1. Though the Contribution Factor has risen steadily over the past decade, this growth was driven almost entirely by the overall size of the USF increasing. There is no crisis in contributions, certainly not if the Commission's policy reforms stop the overall size of the USF from increasing.
2. The Commission should proceed cautiously with any attempt to "fix" the contributions methodology, especially considering many of the proposed "fixes" may actually exacerbate the supposed problems of contribution unpredictability.
3. We noted that we have not outright endorsed or opposed any alternative assessment methodology. Our main concern is that certain methods could shift the contribution burden disproportionately on consumers, particularly low-volume use consumers. This concern is why we are skeptical of the proposals to move from a revenues-based assessment to a numbers or numbers/capacity-based assessment.
4. We urged the Commission to conduct formal cost benefit analysis of any alternative contribution methodologies before changing its rules. In particular, this analysis should examine the distributional consequences of any policy change. We stressed that any policy change that shifted the contribution burden away from businesses, towards

consumers would run counter to the overall universal service goals expressed in the Act.¹

5. We expressed opposition to any contribution methodology that would assess consumer broadband Internet access services. Our prior analysis demonstrated that such an assessment, even if offset with broadband USF subsidies, would likely result in an overall net decline in broadband adoption.² We expressed our thanks that Commissioner McDowell had recently clarified his opposition to such a broadband tax.

Sincerely,

/s/

S. Derek Turner
Research Director
Free Press
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cc (via email):
Christine Kurth

¹ In March of 2005 the Congressional Budget Office released a report that evaluated contribution alternatives for USF. The CBO used a FCC model along with data up to 2001 to predict the various distributional consequences of alternative contribution policies. The CBO's results showed that under a numbers-only or capacity-only approach that the average household USF contribution would change little from the status quo. The analysis also showed that the distributional burden between residential and business customers would change little under either plan compared to the status quo. CBO reported that under a numbers-only system, the contribution burden would shift towards ILEC's and away from long-distance carriers. However, the industry consolidation during the time since CBO published its analysis has completely erased the distinction between ILEC's, long distance carriers, and wireless providers. The two largest ILEC's, AT&T and Verizon, are themselves the two largest long distance and wireless providers. Further, in 2001 very few consumers subscribed to broadband at home, cellular service adoption was low, and mobile broadband wasn't available. Certainly this analysis if performed with current data would likely look quite different than the analysis using 2001 data. We suspect that a number-only or hybrid assessment in today's market would shift the burden away from businesses towards consumers. But this is a question the Commission can and should answer with data. *See* "Financing Universal Telephone Service," Congressional Budget Office, March 1, 2005 (available at <http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/61xx/doc6191/03-28-telephone.pdf>).

² *See* Letter from S. Derek Turner, Research Director, Free Press to Marlene H. Dortch, Secretary, Federal Communications Commission, WC Docket No. 06-122, August 10, 2010.